

PROGRAM TO SUPPORT SUSTAINABLE DEVELOPMENT IN PERNAMBUCO'S MATA REGION

(BR-0246)

EXECUTIVE SUMMARY

Borrower:	State of Pernambuco		
Guarantor:	Federative Republic of Brazil		
Executing agency:	Planning and Social Development Secretariat (SEPLANDES)		
Amount and source:	IDB: (OC)	US\$	90 million
	Local:	<u>US\$</u>	<u>60 million</u>
	Total:	US\$	150 million
Financial terms and conditions:	Amortization period:	25 years	
	Grace period:	5 years	
	Disbursement period:	5 years	
	Interest rate:	variable	
	Inspection and supervision:	1%	
	Credit fee:	0.75%	
	Currency:	currency pool	
Objectives:	The purpose of the program is to support sustainable development of the Mata Region in the state of Pernambuco. To accomplish this, the program will carry out activities in two distinct but complementary areas with the following specific objectives: at the <i>municipal</i> level, improve the availability and quality of basic municipal services, promote civil society participation in the municipal planning process, and strengthen the management capacity of municipal governments; at the <i>regional</i> level, support economic diversification and sustainable natural-resource management.		
Description:	The program has the following subprograms:		
	1. Subprogram to improve basic services (US\$80.5 million). This involves a set of potential investments in activities identified as being of priority importance to the municipios of the region. Activities to be financed will be identified and prioritized through a planning process that includes local participation. By using a <i>menu of eligible options</i> established		

in the program's operating regulations, municipal managers—with participation by civil society—will select the specific investment priorities to be implemented, by means of a municipal investment plan. The activities will be organized in modules that will be carried out sequentially, as described below:

- a. The **module for strengthening municipal management and community organization** will finance: (i) **strengthening of municipal management**, with emphasis on transparent public administration, enhancing the management and technical skills of municipal employees and officials, modernizing fiscal administration, administering social programs, physical planning and environmental management; and (ii) **strengthening civil society participation**, which promotes the participation of civil society in the different stages of program preparation and execution.
 - b. The **social-sector action module** will finance: (i) **educational activities** that complement the formal education system; and (ii) **activities in the health area**, with emphasis on speeding up the process of municipalizing health services, as established in the Unified Health System.
 - c. The **infrastructure module** will finance: (i) **water and sanitation systems**, including the construction, rehabilitation or expansion of small drinking water storage systems and simplified individual and collective sanitation systems, targeting rural communities of between 200 and 10,000 inhabitants; (ii) **rural roads within municipios**, designed to improve and rehabilitate the road drainage system and recover road surfaces; (iii) **municipal public markets and slaughterhouses**, emphasizing rehabilitation of existing facilities and new construction, including systems for treating wastewater from slaughter operations; (iv) **infrastructure to support economic development**, focused on financing the rehabilitation of small infrastructure works related to the marketing of crafts and to local tourism; and (v) **urban cleanup**, aimed at implementing integrated solid waste management plans in each participating municipio, as well as investment in simplified systems for communities of up to 3,000 inhabitants.
2. **Subprogram to support economic diversification (US\$32.1 million)** This will seek to stimulate sustainable economic activities in the region, and will have the following components:

- a. **Support for agribusiness** by financing technical assistance and training for small and medium-sized agricultural producers with less than 200 hectares, in the planning, production and marketing stages.
 - b. **Agricultural validation, dissemination and research** by strengthening the link between technology supply and demand, and instituting projects to validate and disseminate agricultural technology. Resources will be allocated on a competitive basis, in accordance with producer demand. In addition, three medium- and long-term applied research projects will be financed, addressing specific regional problems in order to obtain and select new varieties and higher-quality technologies for the area, along with a project to disseminate technology that has been shown to be applicable to the region.
 - c. **Support for nonagricultural microenterprise** by providing business advisory services and training services for nonagricultural microentrepreneurs in the region, including the following courses and advisory services: (i) business development; (ii) preparation and implementation of business plans for microenterprises; and (iii) training of workers in trades and crafts related to microbusiness activities.
3. **Subprogram for environmental protection and management (US\$8.2 million).** This will seek to strengthen environmental protection and management in the region and promote recovery and sustainable management of its natural resources. The components of this subprogram are as follows:
- a. The **environmental management component** will finance preparation of a *comprehensive environmental action plan*, which will increase knowledge of the region's environmental situation, prioritizing long-term environmental management goals. In addition, it will conduct activities for institutional development and for launching the Mata Region Environmental Information System and the environmental quality monitoring system, and will establish two outposts of the Pernambuco Environmental Protection Agency (CPRH) in the Mata Region.
 - b. **Environmental projects** will finance activities in two main areas: (i) *protection and recovery of the Atlantic forest*, supporting the creation of conservation units and the recovery of degraded areas in order to increase the amount of reforested land in the Atlantic forest region; and (ii) *integrated solid waste management systems*, supporting the preparation of plans for integrated systems for solid waste disposal and up to four

integrated waste management solutions for clusters of municipios.

**The Bank's
country and
sector strategy:**

The Bank's strategy seeks to support the country in: (i) reform of the public sector and modernization of the State, including support for municipal decentralization; (ii) economic liberalization and modernization of the productive sectors; (iii) improving equity and alleviating poverty; and (iv) addressing problems in environmental and natural resource management, with an emphasis on protecting vulnerable ecosystems through the environmental protection and management subprogram.

The proposed program supports actions in: (i) modernization of the public sector at the municipal level, through the component to strengthen municipal management, and at the state level, through the component to support agribusiness, which introduces the concept of private technical assistance; (ii) modernization of productive sectors, through the subprogram for economic diversification; (iii) improving equity, through various activities in the subprogram to improve basic services, such as sanitation, health and education; and (iv) strengthening environmental institutions and financing specific projects to protect vulnerable ecosystems.

**Environmental
and social
review:**

The program's design has identified opportunities for sustainable development of the Mata Region, while highlighting the social and environmental impacts of the different activities and projects. The appropriate environmental control measures, and monitoring of the main positive and negative impacts, have been incorporated in the plan. The subprograms, components and activities of the program will have important positive effects by contributing to the environmentally sustainable socioeconomic development of the region. The program's design—in terms of planning, preparation and execution of investments—is essentially participatory in nature.

The program was analyzed and licensed by the environmental authority, CPRH, through a comprehensive process, based on a socioenvironmental feasibility report. It will be implemented in accordance with an environmental management plan, with responsibilities shared by the Project Management Unit (PMU), CPRH and the municipios (see paragraphs 3.36 and 4.40). The program's operating regulations include specific environmental criteria for each type of project to be followed in the preparation and execution of works. Lastly, the monitoring and evaluation system will have specific environmental indicators defined for environmental management and protection projects, as well as for the environmental management plan for the investments.

Benefits: The program will finance activities and projects constituting a regional development strategy that will have a positive impact on the living conditions and economic opportunities of the population of the Mata Region. Those most affected will be low-income groups, since most of the resources will be channeled to sectors such as drinking water and sanitation, education, health, and support for microenterprise and agribusiness.

Investments in strengthening civil society will promote more effective citizen involvement in participatory planning meetings in which investments are being considered, focusing attention on the demands of the local population. At the same time, strengthening municipal management will improve fiscal management and administration of social programs, physical planning, environmental management, and, above all, the provision of municipal public services to the citizens.

The provision of social, educational and health services will facilitate the development of human capital, thus overcoming one of the main obstacles to increasing the economic vitality of the region. At the same time, training and technical assistance for microentrepreneurs, artisans and small and medium-sized rural producers will create new economic opportunities for the local population.

The above-mentioned actions, combined with better knowledge of environmental issues and renewed efforts on the part of the state's environmental authority for the Mata Region, will promote the adoption of more environmentally friendly technologies and of improved environmental management and protection measures in the region.

Risks: **Delays in preparation of the municipal investment plans (MIPs).** Preparing the MIPs involves a slow, complex process of planning and prioritizing interventions at the municipal level, a fact that could interfere with meeting the proposed execution schedule. In order to mitigate this, the design of the operation envisages contracting specialized consulting services to act as facilitators in preparing the MIPs.

Municipios' access to the program. Financing of small infrastructure works is conditional on the respective municipio meeting fiscal and institutional performance targets. This could slow access to program resources by the weakest—but most socially needy—municipios. To mitigate this situation, the PMU will continuously monitor the institutional and fiscal status of the municipios, engaging specific consulting services when necessary.

State's ability to provide counterpart resources. The state has been implementing measures to improve its fiscal situation. Among other

things, it has renegotiated its debt with the federal government, it has sold off assets, e.g., Banco do Estado and Companhia Energética de Pernambuco (CELPE), and it is implementing a program to strengthen fiscal management with Bank financing. Pursuant to the debt renegotiation agreements, the National Treasury is monitoring developments in the state's fiscal situation. The state legislative assembly has enacted legislation authorizing the use of US\$60 million equivalent from the Pernambuco Development Fund (which was set up with the proceeds from the sale of CELPE) as counterpart resources for the program, thus minimizing the risk of a lack of local resources for the program (see paragraph 3.37).

**Special
contractual
clauses:**

1. Conditions precedent to the first disbursement:

- a. Creation, implementation and assignment of staff of the governing board (see paragraph 3.4) and of the project management unit (see paragraph 3.7);
- b. Entry into force of the program's operating regulations (see paragraph 3.16);
- c. Evidence that the borrower has signed agreements with Companhia Pernambucana de Meio Ambiente (CPRH), Instituto de Planejamento do Estado de Pernambuco (CONDEPE), Fundação de Amparo à Ciência e Tecnologia de Pernambuco (FACEPE), and Empresa Pernambucana de Pesquisa Agropecuária (IPA) (see paragraph 3.10);
- d. Presentation of a shortlist of consulting firms that will be invited to submit bids to support the PMU in preparing and carrying out the program (see paragraph 3.9);
- e. Evidence of the publication of the law authorizing use of resources from the Pernambuco Development Fund as the local counterpart (see paragraph 3.37).

2. Contractual conditions of execution:

- a. Before initiating any bid process to procure works or goods or any process to select consulting services, with the exception of those indicated in paragraph 3.9, the borrower is to have hired the consulting firm referred to in the conditions precedent to the first disbursement under 1(d) above (see paragraph 3.9);
- b. As a condition precedent to the participation of a municipio in the program, evidence is to be provided that the municipio has signed the respective agreement in accordance with the model agreed upon in advance with the Bank (see paragraph 3.11);

- c. As a condition precedent to the disbursement of resources for contracting works and services or procuring goods for the social-sector action module, evidence is to be provided that the local supervision unit has been formed and is in operation, and that the município's local management committee has been created (see paragraph 3.12);
- d. As a condition precedent to the first disbursement of program resources for municipal infrastructure works, evidence is to be provided that the município has complied with the previous clause and has attained the program's intermediate fiscal targets (see paragraph 3.17);
- e. Condition precedent to the disbursement of program resources for drinking water and sanitation infrastructure works: signing of the subconcession contract between the Companhia Pernambucana de Saneamento (COMPESA) and the corresponding users' association or, when the município directly provides such services, the signing of a concession contract between the município and the corresponding association (see paragraph 3.20);
- f. Evidence of having committed all of the program resources earmarked for financing the infrastructure module within a period of 48 months and for the component to provide support to agribusiness within a period of 36 months, both as from the date on which the loan contract enters into force (see paragraph 3.42).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) (see paragraphs 4.33 to 4.35). The borrower will be using the 10 percentage points in additional financing (see paragraph 2.36).

Exceptions to Bank policy:

Pursuant to a request by the Brazilian government, the guarantee contract entered into between the Federative Republic of Brazil and the Bank will not include a guarantee by the Brazilian government to contribute local counterpart resources, nor does the government agree to be responsible for obligations of the borrower that do not fall under the legal authority of the Republic. This decision is the result of legal and constitutional norms in force in the country regarding administrative decentralization and control of public spending. The financial analysis demonstrates that the borrower has the necessary capacity to provide the counterpart resources (see paragraphs 3.37 and 4.16).

Procurement: The Bank's current policy will be applied as regards the procurement of goods, works and consulting services to be financed with program resources. When using resources from the Bank's financing, international advertising will be used for procurements of goods where the value is equal to or greater than US\$350,000, construction of works where the amount is equal to or greater than US\$5 million and the contracting of services where the amount is more than US\$200,000.